



Dear Ms. Higerd:

VIA E-MAIL Paige.Higerd_HC@house.texas.gov

I am writing on behalf of the Carrollton City Council and our Mayor Kevin Falconer to provide feedback on the impending impacts to the city regarding the now adopted rule changes to TAC Section 3.334: Local Sales and Use Tax rules and your interim charge studying a change in local sales tax sourcing from origin based to destination based. We very much appreciate this opportunity to comment and would also like to offer our assistance in providing any additional information that we have available that could assist you with your interim charge. When the Comptroller first proposed TAC 3.334, we commissioned a study regarding the impact to the city of these proposed rule changes and of going completely to destination sourcing. The study concluded that there could be an extremely negative impact on future sales and use tax revenue in the range of 18% loss. While these rules which will become effective October 1, 2021 represent a partial move towards destination sourcing, the study concluded that complete destination sourcing would be double that impact. It is in this context that we would like to provide the following comments:

Impact on the City. The city hired a consultant who looked individually at those taxpayers represent half of the city's total annual sales tax. He then did research on how the entities did business including on-site visits if needed. His estimate was that the city would lose 18.4% of the sales tax it currently receives from these entities. While no attempt was made to project this loss to the bottom half of taxpayers, there will likely be some impact that could be less or more than the impact on the bottom half of taxpayers. This much of a loss in a single year will be devastating to the city.

Impact Statewide. The same consultant who conducted Carrollton's study has also described statewide impacts including:

- A huge shift in sales tax from one city to another often with the result of a relatively small number of large losers and a very large number of small winners. The large losers will be significantly impacted and while the large number of small winners will benefit that benefit that benefit will be small.
- A loss in total local sales tax as many sales are sourced from cities to unincorporated areas. A significant number of Texans live in unincorporated areas even though they may work and shop in neighboring communities.
- Over 100,000 taxpayers of all sales tax permitted taxpayers likely must change their local tax reporting from a Texas single place of business to multiple destination localities

Impact on Transit Authorities. Carrollton is a member of DART and over the years has dedicated a penny of its sales tax capacity representing hundreds of millions of dollars to alleviate congestion and to improve air quality. DART has leveraged this sales tax with sales tax backed indebtedness to build the largest light rail network in the country. In addition, it has just broken ground on a cross town rail project that will provide direct rail service for the northern suburbs to DFW airport and downtown Fort Worth. DART currently has \$3.1 billion of sales tax

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backed debt outstanding and is in the process of issuing more. Any significant drop in sales tax could result in delays of its capital program that will have negative impacts on regional mobility.

Section 380 Economic Development Agreements. There is no doubt that origin-based sourcing is more subject to manipulation and abuse than destination-based sourcing. While a relatively small number of cities participate in these abusive arrangements, the size of the companies participating and the ability for them to source all internet sales state-wide to a single city regardless of whether any economic activity takes place in that city makes this a substantial revenue threat to all Texas cities. At the same time, there are also many legitimate economic development agreements rebating sales tax that truly generated economic development within the state. The Comptroller in rule 3.3334 grandfathered existing 380 agreements whether abusive or not for three years. In our comments to the Comptroller, we encouraged their office to begin gathering significant amount of information regarding the number, structure, size and percentage of sales tax being rebated. We believe with this data, the legislature can craft common sense rules regarding appropriate and inappropriate sales tax rebate arrangements. For the record, Carrollton does not participate in any economic development agreements rebating sales tax.

Conclusion

Sales tax is typically a city's second largest revenue often comprising 25 to 40% of total General Fund revenues. The legislature has recently restricted growth of ad valorem taxes and reduced franchise revenues. We are also likely facing a recession over the next several years. We believe strongly that healthy, desirable cities are at the center of the Texas miracle and that causing a major disruption in revenue at this time will hurt not help the overall economy.

Thank you for your consideration.

Sincerely

Robert Scott

Robert B. Scott
Assistant City Manager
City of Carrollton, Texas

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